Saskatchewan
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FINAL REPORT

Agriculture Research Branch
Saskatchewan Agriculture and Food

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CREATION OF A SINGLE NEW DAIRY PRODUCER ORGANIZATION

Funded by
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CREATING

"DAIRY FARMERS OF SASKATCHEWAN"

FINAL REPORT

OF THE

JOINT BOARD'S STEERING COMMITTEE

FEBRUARY 2002

Canada

CARDS

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A. Executive Summary and Conclusions

Over the past year there has been a strong indication from the three dairy producer organizations and producers in general to combine their efforts and interests and strengthen their focus by creating a single dairy organization. Following the formation of the Joint Boards Steering Committee, a presentation was made to the industry at the February 2001 Dairy Convention to initiate the process. Since that time, the Steering Committee conducted a series of 9 district meetings in the spring of 2001, and prepared a Preliminary Report that was sent to all industry participants with provisions for further comment and feedback. The Steering Committee has met with the Saskatchewan Milk Control Board and the Deputy Minister, Saskatchewan Agriculture and Food to discuss its preliminary findings and the results of the survey that was included in the Preliminary Report. The Steering Committee feels that there has been a very good response from dairy producers to consider the future requirements of an organization that will serve their collective interests. Overall, the Steering Committee estimates that at least 60-70% of all production units have provided input into the process.

In summary, Saskatchewan dairy producers are highly supportive of the concept to create a single producer organization. This feeling is based on the continued rationalization of both producers and processors within the province. Producers recognize that external and internal issues can most effectively be addressed by the creation of a single producer organization.

Producers have indicated to the Steering Committee that now is the time to create a single organization to be known as "Dairy Farmers of Saskatchewan Inc.".

Dairy Farmers of Saskatchewan Inc. will become the single unified organization representing the interests of all dairy producers within the province. The new producer organization will have as its foundation an amalgamation of all the activities and interests of the dairy producer organizations that exist today.

The evolution of our industry, in response to both external and internal issues and developments is an on-going continuous process. The establishment of a single producer organization will provide producers with the strongest unified voice in determining our future.

Producers have indicated to the Steering Committee that Dairy Farmers of Saskatchewan should be formed as quickly as possible and based on the following democratic principles:

- ***Producers want Dairy Farmers of Saskatchewan to encompass all the activities currently undertaken by the existing producer organizations.***

- ***Producers want to use the existing District System as the foundation for establishing democratic representation provided there are on-going regular reviews of the district system that is adopted.***

- ***Following producer wishes, the Steering Committee recommend a Thirteen-member Board of Directors comprised of 10 District Directors and Three Directors-at-Large, all to be elected to initial one or two-year terms.***

- ***Producers want Dairy Farmers of Saskatchewan to be established and based on universal membership and funding.***

    - ***Producers will retain the right to vote on any changes to the levy.***

    - ***Producers do not want to change the operating structure of the industry. There is a unanimous desire to employ The Milk Control Act, 1992 as the authority to collect the operating levy, thereby retaining this legislation as the operating authority for the industry.***

    - ***Producers acknowledge there will be some additional costs they must pick up as Dairy Farmers of Saskatchewan takes over functions formerly paid by the producer cooperative.***

    - ***Producers want Dairy Farmers of Saskatchewan to be as financially efficient as possible.***

    - ***Producers recognize the need for the organization to provide some producer services but caution that the service components should evolve slowly and according to need.***

    - ***The majority of producers would prefer to have the levy based on annual Total Production Quota in kilograms of butterfat rather than volume.***

- ***The Bylaws governing Dairy Farmers of Saskatchewan must clearly reflect the activities and democratic structure that is envisioned.***

To transform the vision into reality, the Steering Committee has undertaken with the approval of the parent organizations, the following action plan:

- ***A series of District meetings, to be held March 2002 so that producers can:***

    - ***Vote to amalgamate the Saskatchewan Dairy Foundation and Saskatchewan Milk Producers Association, Inc. thereby ratifying the amalgamation agreement unanimously endorsed by the existing Boards of Directors for the Saskatchewan Dairy Foundation and Saskatchewan Milk Producers on February 5, 2002. The amalgamation agreement addresses the transfer of responsibilities, activities, all physical and financial assets, current staff and on-going obligations and memberships to Dairy Farmers of Saskatchewan.***

      A copy of the amalgamation agreement including articles of amalgamation, schedules and proposed bylaws will be part of the information package accompanying this Report. Included will be the Notice of Meeting and identification of member rights and privileges as provided by the Non Profit Corporations Act, 1995.

      The membership of both the Saskatchewan Dairy Foundation and Saskatchewan Milk Producers Association will vote on the amalgamation proposal as outlined in the information package. In order to be successful, at least 51% of the membership for each of the organizations must vote, and of those voting, a 2/3's majority vote is required to ratify the amalgamation agreement.

- ***At the same District meetings, and pending the outcome of aggregate vote to amalgamate by the membership of both organizations, and in the interest of efficiency and using the election procedures outlined in the Bylaws for Dairy Farmers of Saskatchewan, elect District representatives to Dairy Farmers of Saskatchewan. The elections of new Directors will only take effect if the aggregate vote to amalgamate by both organizations is successful. Otherwise the election results would be nullified.***

- ***Elections for Directors-at-Large would be conducted by means of a write-in ballot following the district meetings and as specified by the Bylaws for Dairy Farmers of Saskatchewan, if there is a successful vote to ratify the amalgamation agreement.***

- ***Producers will also be asked to vote to approve the proposed operating levy for Dairy Farmers of Saskatchewan as presented in this report.***

- ***Producers may also provide, by means of a resolution, that the priority for the newly elected Board of Directors for Dairy Farmers of Saskatchewan is to complete the negotiations with Government necessary to establish an alternative authority to collect the organization's levy.***

  By adding provisions to The Milk Control Act, 1992, a sound and undisputed mechanism for the collection of levies will take effect, and will l not financially threaten or constrain the activities and services of Dairy Farmers of Saskatchewan in the event of the dissolution of Agrifoods International Co-operative Ltd.

B. Background

Over the past twenty years, there have been three main producer organizations operating within the provincial dairy industry.

The Saskatchewan Dairy Foundation is primarily responsible for collection of promotion levies and related activities. The Dairy Foundation follows traditional organizational structure and has adopted the 10 District system established by Dairy Producers Cooperative. A ten member Board of Directors and 10 delegates forms the basis for conducting Foundation affairs on behalf of its membership. Mandatory membership was tied to membership in Agrifoods International Cooperative, the producer cooperative, and forms the basis for collection of the promotion levy.

The Saskatchewan Milk Producers Association, representing grass roots interests of producers, has a voluntary membership basis and also uses the same district system. The association has a ten member Board of Directors. Members have authorized the Association to have Agrifoods International Cooperative collect its membership fees.

With the merger of Dairy Producers Cooperative into Agrifoods International Cooperative, the 10-member Board of Directors and delegate system was eventually replaced by a Regional Advisory Committee. The district system and delegate structure, originally established by Dairy Producers Cooperative Ltd. continued to be used until Dairyworld Foods was sold earlier this year.

At the time Dairyworld Foods, the processing cooperative, was sold, the three producer organizations were comprised in total of 80 elected representatives for a total constituency that has seen a steady decline from almost 1000 producers in 1980 down to the 340 production units remaining today.

The issue of over-representation, lack of efficiency and a recognized need to create an effective, unified producer voice has been clearly recognized for some time. Consequently, the combined Boards met in December 2000 and discussed

future industry organizational requirements. A subsequent meeting of the executive committees of the three producer organizations in January 2001 resulted in an action plan and mandate for a Joint Boards Steering Committee to investigate and make recommendations on forming a single producer organization in the province.

The Joint Board's Steering Committee is comprised of 6 active dairy producers. There are two representatives from each of the Dairy Foundation, the Saskatchewan Milk Producers Association and the Regional Advisory Committee (RAC) of Agrifoods International Cooperative Ltd.

The Steering Committee met several times to review its mandate and establish operating principles that were presented to producers at the Annual Dairy Convention held in February 2001.

The Steering Committee has been able to obtain funding from both the federal and provincial governments to complete its mandate and conduct a series of meetings with dairy producers in order to obtain the clear support of the majority of producers for the establishment of a single producer organization.

Following is the report of the Steering Committee's first series of input meetings held with producers throughout the province in April and May of this year.

C. Meeting Attendance

The Steering Committee sought input from producers at the combined Spring District Meetings that were held in April and May with Dairyworld Foods, the Saskatchewan Dairy Foundation and Saskatchewan Milk Producers Association.

The district meetings were attended as follows:

District	Location	Production Units	Attendance	
1	Stoughton	28	9	(32%)
2	Swift Current	39	19	(49%)
3	Balgonie	42	20	(48%)
4+5	Yorkton	49	19	(39%)
6	Saskatoon	38	20	(53%)
7	Osler	46	28	(61%)
8	Hague	52	17	(33%)
9	North Battleford	32	12	(38%)
10	Naicam	27	17	(63%)

Overall, 161 production units or 46% of the 353 units, in production at the time of the meetings, attended the meetings. This compares to a 29% attendance rate in

2000 and a 38% attendance rate in 1999. Since 1999, production units have dropped from 411 to 353. Since the meetings were held in May 2001, the number of remaining production units, effective August 1, 2001 will have dropped to approximately 330 production units. While a greater than average attendance was recorded for the meetings in 2001, the meetings clearly conflicted with spring farming activities in some districts.

By comparison, the latest round of Producer information meetings held by the Saskatchewan Milk Control Board in November 2001, were attended by approximately 30-33% of the production units in the province.

D. Purpose of the Steering Committee Workshop Meetings

The Steering Committee had established several objectives that it wanted to accomplish during its workshop sessions.

The objectives were to provide information on its activities to all producers and seek input and support for its mandate, operating principles and future direction.

The Steering Committee posed several questions and received input from producers. The results of the first series of meetings will form the foundation for the final recommendations that are made to producers and concurrently, to the parent organizations, regarding the establishment of a single producer organization.

The Steering Committee indicated that the information gleaned from the meetings would be summarized and presented in a Preliminary Report to producers as a means of acquiring additional feedback.

Given the strong support and consensus achieved during the initial series of producer meetings, the Steering Committee decided not to conduct a second series of meetings to discuss the Preliminary Report and instead incorporated a response survey into the report.

E. Producer Survey Results

The Preliminary Report, sent to all producers, included a questionnaire in order to receive additional producer response. Producers were asked to indicate their agreement with recommendations made by the Steering Committee and were also asked to comment on the draft constitution and to suggest a name for the new organization.

Twenty-six percent of producers responded to the survey. While the Steering Committee had hoped for a stronger response, the high proportion of agreement

(94% overall) with the statements indicates producers are highly supportive of the process.

When conducting surveys with a limited sample size (less than 500 respondents) survey or public opinion analysts expect a standard response rate of 10%. Analysts indicate that a 20% response rate is indicative of few complaints and only expect a 30% or greater response rate if the issues being surveyed are controversial.

The Steering Committee has concluded that the approximately 94% agreement rate to the recommendations and the overall response rate of 26% is indicative of producer concurrence and expectations that a single dairy producer organization will be formed in a timely fashion.

As indicated in the Preliminary Report, the results of the meetings and the survey would be incorporated into the final report.

F. Meeting and Survey Summary

At each meeting, the Steering Committee presentation was designed to be interactive and producer support or concerns for specific issues raised by the Steering Committee were discussed. Clear messages in some instances were obtained from producers and in others additional research and recommendations by the Steering Committee were indicated.

A producer survey was included in the Preliminary Report to gauge producer response to the Steering Committee's recommendations.

In general, producers across the province provided the Steering Committee with a fairly uniform perspective on the future development of a single producer organization. No significant divergence of opinion among participants was noted by the Steering Committee.

The results from the meetings can be summarized as follows:

a. Mandate

The Steering Committee was asked to consider the following issues that were identified by the Executive Committees of the existing producer organizations:

- Structure
- Representation

- Mandatory Membership

- Mandatory Funding
- Identification of Services

- Lobbying Responsibilities

From the beginning of the process, the Steering Committee has considered the forgoing its mandate.

Producers clearly supported the mandate given to the Steering Committee and no negative reaction to the mandate of the Committee or additions to the mandate or proposed process were noted.

Several producers indicated a concern that the process of creating a single producer organization was moving too slowly. In one instance, it was indicated that perhaps the process is moving too quickly and significant issues might be overlooked in haste.

The majority of producers participating in the meetings appeared to be satisfied with the process and time frames that were established by the Steering Committee.

b. Operating Principles

The Steering Committee outlined the following operating principles for its activities:

- To develop a process of constant communication and feedback to receive input and support

- To maintain a cooperative, participatory approach to managing our industry

- To retain the established District System of representation

- Universal Membership

- Universal Funding

In all meetings there was universal acceptance of the operating principles adopted by the Steering Committee.

c. Using the District System for Representation

Meeting participants discussed the continued use of the established District System as the basis of representation for a single producer organization in detail.
The limitations of the existing District System and disparity in numbers between districts were fully recognized by all meeting participants.

The strong majority of producers were comfortable in the continued use of the District System and clearly indicated that initially, the District System could form the basis of organization for the single producer organization.

Because of the geographical and representational limitations inherent in the existing District System, the majority of producers were also comfortable with the Steering Committee recommending to the directors of the single organization that in the future, a regular and routine review of the District System should be incorporated into the organizational structure. Though a minority, some producers felt that it would be wiser to review and revamp the District System before its use as the basis for representation in the single organization.

The Steering Committee concluded that if regular review of the District System is built into the bylaws of Dairy Farmers of Saskatchewan, use of the existing District System would be an acceptable starting point for the majority of producers.

The Survey results indicated that 88% of respondents agreed with this approach.

d. Number of Directors

The Steering Committee presented three options on the number of directors that would be needed to operate the single producer organization. The options included:

- Ten Districts – Ten Directors
- Ten Districts – Ten Directors + Directors-at-Large
- Ten Districts – Ten Directors + Elected District Delegates

Mixed reaction to the options was clearly indicated at several of the meetings.

Of the three options presented, there was virtually no support for the creation of an organization that incorporated a formal Director and Elected Delegate system.

Reaction to the remaining two options that provided for either Ten Districts – Ten Directors; or the option of electing Ten Directors – Ten Districts plus Elected Directors-at-Large (by means of a mail-in election for three directors-at-large) was fairly evenly split.

Meeting participants recognized the importance of establishing a producer organization that would not be subject to undue regional or geographical influence, given the current and anticipated concentration of the industry within the province.
Proponents of the option to have some directors-at-large elected felt that this mechanism could have the effect of balancing representation without giving rise to regional domination within the single organization.

Those in favour of establishing a 10-member board using the existing District System felt it would provide the level of efficiency they are seeking. It was also noted that this number could change at some point in the future depending on the outcome of regular District System reviews.

There were several indications to the Steering Committee by participants that additional work on this issue and a Steering Committee recommendation to resolve the issue would be required.

The Steering Committee recommends that elections be held in each of the 10 districts and that three additional directors-at-large also be elected, resulting in a 13-member Board of Directors.

The Steering Committee recommends that all Directors be elected for 2-year terms, consistent with the terms existing in the current organizations. After the initial elections, subsequent elections would occur in the districts in alternating years based on whether the district was even or odd numbered. Election of Directors-at Large would occur every 2 years.

The Survey indicated that 91% of respondents agreed with the Steering Committee's proposal.

The Proposed Bylaws for Dairy Farmers of Saskatchewan have been modified to address the concerns of both producers and existing organizations.

e. District Organization

While several concerns relating to district communication and anticipated workload were identified, meeting participants had no clear preference for the internal or local district organization that might be necessary to assist the single organization in discharging its responsibilities.

Several factors may contribute to the lack of clarity. Some indicated that economy and safeguarding against a "top-heavy" organizational structure is the paramount consideration.
Others were concerned with the perceived heavy level of responsibility that would be placed on a significantly reduced number of directors in comparison to the existing organizational structures of the current producer groups.

Others indicated concerns regarding the development of experienced replacements in the future.

All could agree that following the establishment of a single producer organization the issue of ensuring communication and participation at the district level would evolve to meet the single organizations requirements.

Throughout the presentations the Steering Committee raised the issue of ensuring the established structure would be able to cope with the combined activities of the existing organizations and the impact on the responsibilities of the reduced number of directors that would be involved in addressing issues in the proposed single organization.

The Committee did not receive clear guidance from participants in this regard. Some participants felt that a clear definition of the roles of the directors and the internal organization of the organization and deployment of employees would adequately address this issue. Reiteration of economy was a recurrent theme throughout the discussion.

The Steering Committee recommends that this issue must receive the close attention of the newly elected Board of Directors who can report to the members at the first annual meeting and make the necessary recommendations for any future changes.

f. Length of Term of Office for Directors

A strong majority of participants indicated that the democratic process of electing directors to the single organization should take precedence

over the establishment of term restrictions. Only a minority of producers felt that there should be any restrictions on the number of terms that any individual could serve as director.

Everyone agreed that Directors should be elected at District meetings and that a mechanism to elect Directors-at-Large would need further consideration. The majority favoured either electing Directors-at-Large at the District meetings from declared candidates or by conducting a mail-in vote.

The suggestion to elect Directors-at-Large at the annual meeting of the organization was solidly rejected.

The Steering Committee recommends adoption of producer sentiment to let the democratic process decide the length of term.

g. Membership and Funding

There was unanimous agreement by all participants at all meetings that membership in the single producer organization should be universal. As all production units will benefit from the activities of the proposed organization, there was strong, unanimous support for establishing mandatory participation in the single organization. All meeting participants felt a mandatory membership would best serve the collective needs and requirements of producers.

There were no indications of objection to universal or mandatory membership expressed at any of the meetings.

Preliminary budgets, based on the existing budgets for the currently active organizations, were presented at each meeting. While it is difficult to attempt to quantify the efficiencies inherent in creating a single organization, producers recognized that potential cost savings could result.

Activities such as participation in Dairy Farmers of Canada, Member Services and support for other organizations or activities that were once paid by Dairyworld Foods on behalf of all producers would have to be incorporated into the operating budget of the single organization in the future. Generally producers recognized the need to maintain the essential activities.

There was clear recognition that funding by levy of the membership would be necessary to operate the single organization. All participants recognized that the level of funding necessary to operate the single organization would not be less than the current levy structures but

agreed that some cost savings and efficiencies would help to reduce the level of additional costs.

Producers unanimously agreed that following initial acceptance of the levy, any future changes to the levy would occur only following a producer vote, as is currently the situation in the existing producer organizations. Levy mechanisms were reviewed and there was a strong majority support for basing future levies on the annual Total Production Quota in kilograms of fat as the fairest way of assessing the levy.

The Steering Committee recommends that the single organization be established on the basis of universal membership and levy. Changes to the levy mechanism should be established at the outset for the single organization to reflect producer wishes.

The Survey indicated that 98% of all respondents desire an organization that encompasses all the activities of the existing organizations.

The Survey indicated that 95% were in favour of establishing universal membership and a mandatory levy.

The Survey also indicated that 96% of respondents were in favour of establishing a levy based on annual production of butterfat, rather than volume of milk shipped.

h. Member Services

Meeting participants concluded that the provision of needed member services in the future was an issue that would slowly evolve over time. While there was no clear rejection of the concept of providing some services to members, there was no clear indication from the participants as to what services formerly provided by Dairyworld Food staff should be maintained. This was due in part to the mixture of services, some which pertained only to the Cooperative. Perspective on this issue appeared to be based on personal experiences rather than the larger context of strengthening or advancing the industry.

The Steering Committee concluded that the desire to maintain a service component exists without any significant definition of the types of services or funding approaches.

The Steering Committee therefore recommends the newly established Board of Directors will need to review this issue on a

continuous basis and be prepared to assess service requirements in a timely fashion as requirements dictate.

The Survey indicated that 96% of respondents agree that Dairy Farmers of Saskatchewan should evolve slowly and according to need when establishing the service components.

i. Legislative Authority to Collect a Mandatory Levy

The Steering Committee presented two options for obtaining the authority to collect a mandatory levy.

There was strong support and unanimous agreement by all participants that despite the potential weaknesses that currently exist, the legislative authority for the collection of the levy necessary to operate the single producer organization should be ***The Milk Control Act, 1992.***

There was absolutely no interest expressed by participants in considering the alternative option of using ***The Agri-Food Act*** as the levy collection authority or the framework for eventually creating a producer marketing board at some time in the future.

The Steering Committee recognizes that in order to meet producer wishes further consultation and effort to make certain the Milk Control Act has the necessary authorities to collect a pass-through levy on behalf of the producer organization must become a priority for Dairy Farmers of Saskatchewan.

G. Meeting and Survey Conclusions

The survey indicated that 95% of respondents were in favour of establishing a single dairy producer organization and the majority of respondents have indicated that the organization should be named Dairy Farmers of Saskatchewan, Inc.

Over the past year's activities, the Steering Committee has and continues to receive strong indications from producers that there is a need to establish a single dairy producer organization. The majority of producers have indicated strong interest in bringing this process to a successful conclusion. Producers recognize that as our industry continues to evolve establishing Dairy Farmers of Saskatchewan is a necessary priority to effectively and efficiently represent producer interests.

H. Creating Dairy Farmers of Saskatchewan

The Committee has identified several options that can be considered, including dissolution of one or both of the existing organizations; creation of a new organization and subsequent transfer of activities from the existing organizations; or using the provisions of The Non-Profit Corporations Act, 1995 to amalgamate the existing organizations.

The three existing producer organizations embarked upon the creation of a single producer organization by providing the Steering Committee with a clear mandate. The Steering Committee developed operating principles, which have received the support of all producers to guide the process.

With the foregoing in mind, the Steering Committee has recognized the inherent difficulties in dissolving one or more of the existing organizations.

Upon analysis, the Steering Committee concluded that dissolution of either, or both, the Saskatchewan Dairy Foundation or Saskatchewan Milk Producers Association would impede the development of a single producer organization.

Issues such as continuing the activities of the organization, and wind-up and disposal of assets as established by the organization's existing Constitution and provisions of *The Non-Profit Corporations Act, 1995* were insurmountable and would likely cause the process to fail.

Agrifoods International Cooperative, following the sale of Dairyworld Foods, will likely remain in operation as a milk transportation and milk pay company for several years. The sales agreement for Dairyworld Foods provides for continuation of these activities for up to 10 years. As the funding for promotion activities has been tied to membership in the cooperative, alternative levy provisions must be established. The Saskatchewan Regional Advisory Committee has agreed to seek an Agrifoods bylaw change that will require future representation to Agrifoods International Cooperative's Board of Directors and Saskatchewan Agrifoods delegates to be Directors of Dairy Farmers of Saskatchewan.

At its February 6, 2002 meeting, the Regional Advisory Committee passed the following motion: "To have Doug Copland [Agrifoods legal counsel] make Agrifoods bylaw changes to be voted on at the Annual General Meeting of Agrifoods so that Saskatchewan delegates to Agrifoods will come from the Directors of Dairy Farmers of Saskatchewan." Following the bylaw change, members of the Cooperative will still vote and choose their delegates from the Directors of Dairy Farmers of Saskatchewan that are members in the co-operative.

The Non Profit Corporations Act, 1995 provides for the amalgamation of two or more non-profit corporations. Following direction from the membership of the

involved corporations, a single corporation, using articles of amalgamation can carry on all the functions of the original corporations. This provides a smooth and effective transition mechanism as the responsibilities, obligations and assets roll forward into the new entity. The benefits of amalgamation are as follows:

- Inherent difficulties of dissolution and disposal of assets are avoided
- Members of amalgamating corporations must give approval
- Activities and contractual obligations of the amalgamating corporations flow into the new organization
- Process is relatively seamless – Parent Organizations Today – Dairy Farmers of Saskatchewan Tomorrow.

Given the common membership base for both organizations, the Amalgamation Agreement effecting the establishment of a combined operation under a new name is, in this situation, relatively easy to accomplish. The necessary elements of the amalgamation agreement include:

- Continuation of all activities under the new Board
- Honouring all current obligations and contracts
- Combination of asset base
- Transfer of staff to the new entity
- Recommendations on the future use of surplus assets
- Effective date of transfer.

As producers already own all of the assets to be considered and delegate their management to an elected Board of Directors, and see the continuation of the current activities into the future, creating Dairy Farmers of Saskatchewan is straightforward. There is no disposal of assets and no discontinuation of functions or activities, responsibilities, and staff to be considered. The elected Board of Directors will be expected to continue the activities, manage the assets and be responsible to the membership.

The amalgamation process can be initiated one of two ways:

- Existing Boards will recommend amalgamation to its members in order to create an entity that is stronger and more effective than currently exists. Members of each organization interested in amalgamation must have the opportunity to vote on the amalgamation proposal according to the provisions of the *Non Profit Corporations Act,* 1995.

- Alternatively, the members of an organization can put forth a motion either at the Annual General Meeting or at a special meeting called specifically to entertain a motion of amalgamation

in order to provide instruction to their Board to amalgamate the corporations.

A strong majority of producers as well as the parent organizations have indicated both a preference and support for establishing a single organization. The Steering Committee working in consultation with producers and the parent organizations has completed the development of an amalgamation agreement, articles of amalgamation, schedules, bylaws and a star-up budget for Dairy Farmers of Saskatchewan.

The respective Board of Directors of both the Saskatchewan Dairy Foundation and Saskatchewan Milk Producers Association, Inc. have unanimously voted to enter into an Amalgamation Agreement. The Amalgamation Agreement must now be ratified by the membership of both organizations. The name, "Dairy Farmers of Saskatchewan Inc." has been reserved pending the results of the membership votes.

I. Bylaws for Dairy Farmers of Saskatchewan Inc.

At one meeting, participants raised the issue of developing an operating constitution or bylaws for the single organization.

The first series of meetings has clearly established producer sentiments regarding use of the existing District System for representation. The Steering Committee was asked to resolve the number of directors to be elected and draft an example Constitution. A draft Constitution was presented to producers in the Preliminary Report. The Steering Committee used the Survey comments and a Joint Boards meeting in October to further refine and organize the presentation of the Constitution to meet both the expectations of the producer body and their existing organizations. The Constitution that had been drafted clearly encompasses the activities and responsibilities of the parent organizations.

Following a review of the proposed Constitution by the Joint Boards of the three organizations in December, 2001 the proposal was submitted for legal review by counsel for the Steering Committee, as had been requested by the parent organizations. As a result of the legal review, the reorganized bylaws are in compliance with all pertinent legislation and regulations, and clearly incorporate the wishes of producers and the parent organizations. The Bylaws for Dairy Farmer of Saskatchewan are attached to the amalgamation agreement accompanying this report.

J. Start-up Budget for Dairy Farmers of Saskatchewan

The Steering Committee's mandate is to develop a budget for Dairy Farmers of Saskatchewan that encompasses all of the activities that were previously provided by each of the three contributing organizations. Two of the three parent organizations will bring both physical and financial assets to Dairy Farmers of Saskatchewan.

The inherent cost savings resulting from the combination of the existing Boards will help to offset the additional costs faced by Dairy Farmers of Saskatchewan. Beginning in 2002, costs associated with membership in Dairy Farmers of Canada, support for two of the four provincial delegates to Dairy Farmers of Canada and the service components and support activities will be directly paid by producers. Previously, these costs were paid out of operating funds for Agrifoods International Cooperative.

In developing a one-year budget for Dairy Farmers of Saskatchewan the Steering Committee took recommendations from the workshops and the survey results from the Preliminary Report into account when developing this budget. The survey indicated that 96% of the respondents felt that Dairy Farmers of Saskatchewan should evolve slowly and according to need when considering any service components. Eighty-six percent of the survey respondents were in agreement that Dairy Farmers of Saskatchewan would need to pay for the essential functions that were formerly paid by the producer cooperative.

It is the Steering Committee's view that the start-up budget must be sufficient to cover the activity costs of the organization and address the additional costs that were once paid by the producer cooperative. However, final approval of any operating budget will become the responsibility of the elected Board of Directors for Dairy Farmers of Saskatchewan.

In developing a one-year budget, the Steering Committee has reviewed the budgets of the existing organizations and has attempted to amalgamate the budget to encompass all current activities. In order to develop a reasonable cost effective budget, the Steering Committee made the following considerations:

- The budgeted position for one service provider is included in the budget, but should not be filled until the Board for Dairy Farmers of Saskatchewan has had an opportunity to review any service components that might be required.

- Dairy Farmers of Saskatchewan should fill the General Manager's position. In addition to implementing the aims and objectives and performance standards of the Board of Directors, the General Managers functions will address the general management, policy

analysis, policy development and service activities that reflect the expanded role of Dairy Farmers of Saskatchewan.

Saskatchewan producers have annual milk revenues of approximately $113 million dollars, approximately a $275 million dollar investment in quota, and a conservative estimate of at least another $300 million investment in cattle, equipment and facilities. These are the interests that Dairy Farmers of Saskatchewan is undertaking on behalf of all dairy producers. Much more is at stake than just the operating budgets covering the current activities of the parent organizations.

- On-going promotion programs, staff and memberships have been maintained as budgeted by the Saskatchewan Dairy Foundation. A Director of Promotions is envisioned to address current and future promotions issues.

- While subject to final Dairy Farmers of Saskatchewan Board approval, a suggested per diem allowance of $200 for Director activities has been used throughout the budget estimate.

- The Steering Committee envisions that the new Board will meet 9 times in its first year of operation or approximately once every 6 weeks.

- Office rental has been increased to reflect market rental costs. Depending on the eventual disposition of the Regina Agrifoods property, Dairy Farmers of Saskatchewan may need to find alternative office space.

- The proposed budget incorporates the contributions formerly paid by Agrifoods International Cooperative Ltd. In the workshop budget presentation, these costs were estimated to be $243,560. The field service component has been dropped and the grants paid on behalf of producers to Canadian Western Agribition, Agriculture in the Classroom and Foundation for Animal Care have been incorporated into the new budget.

- The Saskatchewan Dairy Foundation and the Saskatchewan Milk Producers Association combined annual revenues were approximately $1,816,771. This was based on the levy structure of $0.80 for the promotion levies and $0.05 per 100 kilograms for the voluntary SMPA levy. Approximately $25,000 additional revenue was realized from interest, sale of promotional and nutritional materials and milk coolers. In the future there will be no revenue contribution from Agrifoods International Cooperative Ltd.

As this will not be sufficient revenue to cover the costs formerly paid by Agrifoods International and incorporate a minimum service component, additional funds are required as noted in the following budget.

- **Start-up Budget Summary for Dairy Farmers of Saskatchewan**
  (Budget Details for this summary follow)

Expenses	**$**
Capital Purchases	5,000
Administrative	367,100
Cost of Goods and Services Tax	15,000
Directors Expense	202,044
Dairy Farmers of Canada Industrial Milk Levy	745,212
Programs	
School Milk Program	77,250
Promotional Program	510,000
Nutrition Communication	53,700
Sask. High School Athletics Program	29,000
*P4 Promotional Programs	200,000
Total	**$2,204,306**

***Note: P4 Promotional Programs are budgeted from Saskatchewan Dairy Foundation Surpluses**

- **Levy Costs for Dairy Farmers of Saskatchewan Operational Budget:**

o Total To be Levied from Producers:	$2,004,306
*Cost Per 100 kgs of milk:	$0.9412-$0.9510
*Cost Per Kilogram of Butterfat:	$0.2607-$0.2622

*Levy range varies when comparing last year' total butterfat shipments to current dairy year's TPQ allocation.

- **Budget Details for Dairy Farmers of Saskatchewan**

Administrative Budget	**$**
DFS Management and Promotions Staff	247,000
Travel and Accommodation	9,000
Postage and Courier Services	22,000
Office Expense	24,000
Office Rent	30,000
Telephone and Fax	8,000
Legal and Audit Services	10,000
Subscriptions and Memberships	1,000

Administrative Budget Continued	$
Insurance	4,000
Bank Charges	300
Employment Insurance Costs	5,200
Canada Pension Plan Costs	5,600
Contractual Services	1,000
Total	**367,100**

Directors Expense	$
President's Stipend	4,000
Per Diems	23,400
Travel and Accommodation	35,100
Directors Meeting Allowance	7,000
Regional Meeting Allowance	15,000
Sask. Dairy Convention Costs	2,000
P4 Meeting Costs	10,000
UIC Expense	500
CPP Expense	500
Dairy Farmers of Canada Costs	
Per Diems	7,600
Travel and Accommodation	22,000
Membership Fees	48,444
Newsletter	10,000
Miscellaneous	1,500
Farm Animal Council (FACS)	5,000
Agriculture in the Classroom	5,000
Industry Organization Expense	5,000
Total	**202,044**

- **All Promotions Program Costs are taken from the approved budget for the Saskatchewan Dairy Foundation.**

School Milk Program	$
Travel and Accommodation	2,200
Office Expense	6,000
Postage and Shipping	16,000
SMP Material Give-aways	49,000
Refrigeration Assistance	1,000
Cooler Lien	500
Pilot Project	1,750
Education – Showcase	800
World School Milk	0
Total	**77,250**

Promotional Programs	$
Travel and Accommodation	4,000
TV Media	150,000
Print Media	40,000
TV Production	80,000
Market Research	10,000
Agency Fees	31,000
Administration Fees	2,000
Media Research	10,000
District Promotions	0
Radio Fluid Promo	40,000
Summer Promotion	11,000
Dairy Products Promo	4,000
Promo Materials Given Away	5,000
Dairy Youth Ambassador Competition	1,000
Dairy Youth Ambassador P.R.	6,000
Parade Float	9,000
Outdoor Media – Highway Signs	0
Sponsorships	6,000
Tradeshows	15,000
Outdoor Media- Billboards/Bus Posters	80,000
Mascot	6,000
Total	**510,000**

P4 Promotions Programs	$
P4 Cream Promotion	0
P4 Joint Partnership	200,000
Total	**200,000**

Nutrition Communication	$
Nutrition Material Given Away	3,000
Travel and Accommodation	1,500
Media	1,000
In-Service Workshops	35,000
Seminars and Displays	200
Fast Facts Newsletter	1,500
Nutrition Sponsorships	3,000
Product Donations	1,500
Research and Grants	3,000
Sports Nutrition	4,000
Total	**53,700**

Sask. High School Athletics Association	$
Grant-Major Sponsorship	12,000
Product	11,000
Calendars	2,000
Sportsmanship Program	4,000
Total	**29,000**

- **Dairy Convention Revenue/Expenses**

  The annual Dairy Convention account is operated on behalf of all dairy producers, but will continue to be kept separate from the budgeted activities of Dairy Farmers of Saskatchewan. A university bursary and membership in the Saskatchewan Agricultural Hall of Fame is paid annually out of the Dairy Convention revenues.

Dairy Convention Revenue	16,906
Dairy Convention Expenses	5,958
Industry Revenue:	10,948

- **Surpluses from Contributing Organizations**

  Both the Saskatchewan Dairy Foundation and Saskatchewan Milk Producers Association will contribute their surplus funds to Dairy Farmers of Saskatchewan, as established by the most recent audited statements prior to amalgamation.

The Steering Committee recommends a start-up budget levy of $0.95 per 100 kilograms of milk shipped or in keeping with the majority producer wish, a levy rate of $00.2622 per kilogram of Total Production Quota Butterfat.

The Proposed levy for Dairy Farmers of Saskatchewan will replace the current Saskatchewan Dairy Foundation and Saskatchewan Milk Producer Association levies and covers the portion of Dairy Farmers of Canada costs formerly paid directly by Agrifoods International.

The Steering Committee recognizes that the Board of Directors for Dairy Farmers of Saskatchewan will need to review the start-up budget during the first year of operation and assess whether additional funds will be needed to meet the expanded role and activities of the existing promotions or any new promotion or service programs.

The Amalgamation Agreement addresses the continuation of the current promotions programs until October, 2002 or until such time as the Board of Directors for Dairy Farmers of Saskatchewan establishes new promotional programs.

K. Future Funding Requirements

The milk promotion activities undertaken by the Saskatchewan Dairy Foundation in partnership with other provinces (P4 Fluid Milk Promotion) or nationally for industrial milk promotion are dynamic and subject to continual modification or expansion. During the past year, the Dairy Foundation has been working on changes to fluid milk promotion (P4 Fluid Milk Promotion) and has indicated the impact of the changes to producers on several occasions.

These activities will become the responsibility of Dairy Farmers of Saskatchewan and as a result of current commitments, producers will be asked to support additional milk promotion activities. While producers will retain the right to consider and vote to increase the levy, Dairy Farmers of Saskatchewan is expected to seek additional funding for promotion programs as early as the fall of 2002.

Producers will be asked to consider, as a partner in the P4 Fluid Milk Promotions Agreement to increase the fluid milk promotion levy by:

- 16 cents per 100 kilograms of milk or 4.416 cents per kg. of butterfat effective January 2003 (combines both 2002 and 2003) ;and
- 8 cents per 100 kilograms of milk or 2.208 cents per kg. Of butterfat effective January 2004.

The foregoing is based on the assumption that all P4 partners in the fluid milk promotions program began this agreement with a base level funding of 95 cents for their promotions activities. Currently, Saskatchewan's base level promotions funding is estimated to be 92 cents when the skim-off funding is included.

In addition to these anticipated increases, there may also be further developments regarding industrial milk promotion by mid-summer. The amalgamation agreement provides for the continuation of the current milk promotion activities until such time as the Board of Directors of Dairy Farmers of Saskatchewan establishes a new promotions program.

L. Negotiating Change to the Milk Control Act, 1992

The Steering Committee had identified two potential legislative mechanisms to establish universal membership and mandatory funding. These options were:

- *The Milk Control Act,* 1992
- *The Agri-Food Act*
  - Development Board
  - Marketing Board

During the workshop meetings, producers were presented with the foregoing options. It was recognized that the Milk Control legislation does not currently have provisions for a mandatory membership and levy. However, the Act has served as the cornerstone of the structure for the Saskatchewan dairy industry since 1934 and has served producers well.

The Agri-Food Act is specifically designed to establish either development boards or marketing boards. Each commodities requirement are developed and written as regulations pursuant to the Act. Some commodities under this act have mandatory membership/levies if a successful producer vote was held, while other groups have mandatory-refundable levies if no producer vote was conducted.

While Dairy Farmers of Saskatchewan could be established under this Act, the structure of the industry would continue to be established by the *Milk Control Act, 1992*. Establishing the legislative authority to require universal membership and mandatory levies under the Agri-Food Act could be viewed as the first step in eventually creating an alternative marketing structure for the industry as a result of pressure from either producers or government. Producers unanimously voted to remain within the existing structure. In order to accomplish this desire, Government will have to agree to change the *Milk Control Act, 1992* to accommodate universal membership and a mandatory levy.

It is the desire of producers that Dairy Farmers of Saskatchewan remain fully independent from both the Milk Control Board and the Department of Agriculture and Food, which administers the *Agri-Food Act* through the Agri-Foods Marketing Council.

A proposal to contract promotion activities to an agent of the Milk Control Board, while preserving a funding mechanism for promotion dollars, does not address any other issues facing producers and would result in the loss of independence by giving the Milk Control Board final authority for the use of producer promotion dollars. With no changes to the act, the existing limitations in *The Milk Control Act, 1992*, would limit producers' ability to have their interests protected. Adoption of this option could potentially result in fractionation of producer interests and reduce future industry stability.

The Steering Committee feels the position of producers in wanting to maintain the *Milk Control Act, 1992* with the necessary changes is both reasonable and achievable. The Steering Committee recognizes that a very strong indication, by means of the vote to establish Dairy Farmers of Saskatchewan, will be necessary to successfully petition government. The Steering Committee reminds all producers that it is our industry, our funding and our choice.

By creating Dairy Farmers of Saskatchewan prior to the completion of negotiations to change the Act, we are more likely to be successful in obtaining

our request. While the transfer of authority for levy collection to the *Milk Control Act, 1992* from its current authoritative mandate, which is tied to membership in Agrifoods International Cooperative Ltd, is a priority for Dairy Farmers of Saskatchewan, there is time to accomplish this without further impeding the establishment of Dairy Farmers of Saskatchewan.

M. Conclusion

On the basis of its year-long activities and consultations with producers, producer organizations, government agencies and representatives, the Steering Committee recommends that the rights, interests and activities of Saskatchewan dairy producers can most effectively and efficiently be maintained and enhanced by amalgamating the existing organizations to establish Dairy Farmers of Saskatchewan Inc.

The accompanying Amalgamation Agreement, as endorsed by the parent organizations, and the proposed Articles of Amalgamation, schedules and bylaws clearly defines the roles and functions of Dairy Farmers of Saskatchewan and along with this Report are placed before all dairy producers for their consideration, approval and ratification.

We, the Steering Committee believe, and respectively submit to our fellow producers, that as a single producer organization, Dairy Farmers of Saskatchewan Inc. will be able to more effectively and favourably meet the future challenges and opportunities that face our industry and affect our livelihood.

The Steering Committee feels honoured to have had the opportunity to conduct its activities with the full support of producers and the parent organizations and strongly urges all producers to actively support this significant effort by attending the scheduled District Meetings and completing the year-long process of exploration and development.

We feel every producer now has the responsibility to complete the process and urge each and every dairy producer to participate in the next steps. A strong indication of support will strengthen Dairy Farmers of Saskatchewan's ability to effectively represent our collective interests.

MEMBERS

OF THE

JOINT BOARD'S STEERING COMMITTEE

CLEMENT DION
ZENON PARK

ELVIN HAUPSTEIN
WEYBURN

PHIL KLASSEN
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